

Accredited Asset Management Specialist (AAMS) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

- 1. What general tax consequence does an employer face under a nonqualified deferred compensation plan?**
 - A. Receives a deduction when the employee recognizes income**
 - B. Is taxed on the nonqualified plan contributions**
 - C. Must pay additional payroll taxes on the deferred amounts**
 - D. Has no tax consequences until distribution**
- 2. What will June O'Leary be taxed on when she begins receiving her annuity payments?**
 - A. All payments received**
 - B. Only the principal amount**
 - C. Any amount representing investment gains**
 - D. No taxation on the payments**
- 3. Which one of the following is a characteristic of probate?**
 - A. Often a costly and complex process**
 - B. A nonspringing durable power of attorney**
 - C. A quick and easy transfer of assets**
 - D. Automatic validation of a will**
- 4. What is a fundamental investment strategy for accumulating retirement funds?**
 - A. Investing only in low-risk assets.**
 - B. Investing should start shortly before retirement.**
 - C. Beginning to invest many years before retirement to leverage compounding returns.**
 - D. Limiting investments to government bonds.**
- 5. Using the capital asset pricing model, what is the expected return of a stock with a beta of 1.40, when the risk-free rate is 3% and market return is 10%?**
 - A. 10.40%**
 - B. 11.20%**
 - C. 12.80%**
 - D. 14.00%**

- 6. What characteristic should a company prioritize when establishing an incentive plan?**
- A. Minimizing employee costs**
 - B. Ensuring employee retention**
 - C. Maximizing dividend returns**
 - D. Encouraging employee training**
- 7. If a taxpayer is in a 24% marginal tax bracket, how much will a \$100 charitable contribution reduce their taxes?**
- A. \$10**
 - B. \$24**
 - C. \$34**
 - D. \$100**
- 8. What is considered when calculating the expected return of an investment portfolio?**
- A. Investment age and duration**
 - B. Individual investor preferences**
 - C. Weightage of assets and their expected returns**
 - D. Economic indicators only**
- 9. What type of life insurance is best for an employer seeking flexibility in investment choices for funding a nonqualified deferred compensation agreement?**
- A. Whole life insurance**
 - B. Universal life insurance**
 - C. Term life insurance**
 - D. Variable life insurance**
- 10. Which type of insurance expense is part of Ted Jones's budget?**
- A. Homeowner's insurance**
 - B. Auto insurance**
 - C. Health insurance**
 - D. Liability insurance**

Answers

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1. A
2. C
3. A
4. C
5. C
6. B
7. B
8. C
9. D
10. B

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Explanations

1. What general tax consequence does an employer face under a nonqualified deferred compensation plan?

- A. Receives a deduction when the employee recognizes income**
- B. Is taxed on the nonqualified plan contributions**
- C. Must pay additional payroll taxes on the deferred amounts**
- D. Has no tax consequences until distribution**

The employer's general tax consequence in relation to a nonqualified deferred compensation plan is that they receive a deduction when the employee recognizes income. This occurs because the employer can only deduct the amount contributed to the employee's nonqualified deferred compensation plan when the employee reports that income on their tax return. In a nonqualified deferred compensation plan, there is typically no immediate tax impact for the employer upon contribution. The employer must wait to take the tax deduction until the employee has actually received the funds and recognized them as income. This timing aligns the employer's tax benefit with the employee's recognition of income, therefore providing a strategic advantage in managing cash flows and tax implications. Regarding other aspects, the employer is not taxed on contributions to the nonqualified plan at the time those contributions are made, nor are additional payroll taxes typically applied to deferred amounts. The employer also does not face immediate tax consequences, as the primary tax impact arises only when the employee recognizes income from those contributions and not at the point of deferral.

2. What will June O'Leary be taxed on when she begins receiving her annuity payments?

- A. All payments received**
- B. Only the principal amount**
- C. Any amount representing investment gains**
- D. No taxation on the payments**

When June O'Leary begins receiving her annuity payments, she will be taxed on any amount representing investment gains. This reflects the tax treatment of annuities, where the contributions made to the annuity (the principal or premiums paid) are typically made with after-tax dollars, meaning those funds are not subject to further taxation upon withdrawal. In contrast, the investment gains earned on those contributions are taxable as income when distributed. Under the taxation rules for annuities, the Internal Revenue Service (IRS) allows tax deferral on the growth of the investment within the annuity. However, once distributions commence, only the earnings portion of the payments is subject to income tax, while the principal portion has already been taxed previously. This method ensures that June only pays taxes on the income generated by her investment rather than being taxed twice on her own contributions.

3. Which one of the following is a characteristic of probate?

- A. Often a costly and complex process**
- B. A nonspringing durable power of attorney**
- C. A quick and easy transfer of assets**
- D. Automatic validation of a will**

The correct choice highlights that one characteristic of probate is that it is often a costly and complex process. Probate refers to the legal procedure involved in administering a deceased person's estate, which includes validating the deceased's will, if one exists, and ensuring that debts are settled and assets are distributed according to the will or state laws if there is no will. The complexity of probate arises from the legal requirements that must be met, the need to appraise estate assets, settle debts, and potentially navigate disputes among beneficiaries or heirs. Additionally, since probate can involve court fees, attorney fees, and other costs, it is typically a more expensive undertaking than transferring assets outside of probate. The other choices do not accurately describe characteristics of probate. A nonspringing durable power of attorney involves a different legal concept regarding the management of a person's affairs while they are alive, not the post-death handling of their estate. The notion of a quick and easy transfer of assets contradicts the nature of probate, which can often be time-consuming and complicated. Lastly, while a will is validated during the probate process, this validation is not automatic and can be contested, making it a misleading description of this aspect of probate.

4. What is a fundamental investment strategy for accumulating retirement funds?

- A. Investing only in low-risk assets.**
- B. Investing should start shortly before retirement.**
- C. Beginning to invest many years before retirement to leverage compounding returns.**
- D. Limiting investments to government bonds.**

Beginning to invest many years before retirement to leverage compounding returns is a fundamental investment strategy for accumulating retirement funds because it allows individuals to take advantage of the growth potential of their investments over an extended period. The principle of compound interest means that the returns earned on investments can generate their own earnings over time, which can significantly increase the total value of the investment as the years progress. Starting to invest early gives the investor the opportunity to weather market fluctuations, as they have time to recover from any potential downturns. It also facilitates the ability to take more aggressive investment positions earlier in the investment horizon, which can potentially lead to higher returns. By accumulating funds through compounding, individuals can build a substantial retirement nest egg when the time finally comes to retire. In contrast, the other approached strategies suggest limitations, such as an emphasis on low-risk assets that might not grow sufficiently over the long term, or waiting until shortly before retirement to invest, which does not allow enough time for compounding to be maximally effective. Limiting investments solely to government bonds may also result in inadequate growth potential compared to a diversified portfolio that includes higher-return assets such as stocks or mutual funds.

5. Using the capital asset pricing model, what is the expected return of a stock with a beta of 1.40, when the risk-free rate is 3% and market return is 10%?

- A. 10.40%
- B. 11.20%
- C. 12.80%**
- D. 14.00%

To determine the expected return of a stock using the Capital Asset Pricing Model (CAPM), the formula used is: $\text{Expected Return} = \text{Risk-Free Rate} + \text{Beta} * (\text{Market Return} - \text{Risk-Free Rate})$. In this case, you have: - Beta = 1.40 - Risk-Free Rate = 3% (or 0.03 as a decimal) - Market Return = 10% (or 0.10 as a decimal). First, calculate the market risk premium, which is the difference between the market return and the risk-free rate: $\text{Market Risk Premium} = \text{Market Return} - \text{Risk-Free Rate}$ $\text{Market Risk Premium} = 0.10 - 0.03$ $\text{Market Risk Premium} = 0.07$ (or 7%). Next, plug these values into the CAPM formula: $\text{Expected Return} = 0.03 + 1.40 * 0.07$ $\text{Expected Return} = 0.03 + 0.098$ $\text{Expected Return} = 0.128$ or 12.8%. This result corresponds to a percentage of 12.80%. This demonstrates that as the stock's beta is greater than 1, it is expected to have higher volatility compared to the overall market, indicating that it should yield a

6. What characteristic should a company prioritize when establishing an incentive plan?

- A. Minimizing employee costs
- B. Ensuring employee retention**
- C. Maximizing dividend returns
- D. Encouraging employee training

When establishing an incentive plan, a company should prioritize ensuring employee retention. This characteristic is essential because a strong incentive plan aims not only to motivate employees but also to keep valuable talent within the organization. High employee turnover can be costly in terms of recruitment, training new hires, and lost productivity. By focusing on retention, the company underscores its commitment to its employees and promotes a stable workforce, which can lead to enhanced organizational performance, teamwork, and overall morale. Encouraging employee training, while beneficial, is more a component of development rather than a direct focus of an incentive plan. Minimizing employee costs can deter from the overall goal of creating a positive and motivating work environment. Maximizing dividend returns primarily concerns shareholders rather than employee engagement and satisfaction, which ultimately affects retention. Hence, prioritizing employee retention aligns the company's strategic objectives with the well-being and loyalty of its workforce.

7. If a taxpayer is in a 24% marginal tax bracket, how much will a \$100 charitable contribution reduce their taxes?

- A. \$10
- B. \$24**
- C. \$34
- D. \$100

When a taxpayer makes a charitable contribution, it can be deducted from their taxable income, which effectively lowers the amount of income subject to taxation. In this case, if the taxpayer is in a 24% marginal tax bracket, each dollar contributed will reduce their taxable income and thus their taxes by that percentage. If the taxpayer contributes \$100 to charity, the tax benefit is calculated by multiplying the contribution amount by the taxpayer's marginal tax rate. Therefore, a \$100 donation multiplied by a 24% tax rate results in a tax reduction of \$24. This means that the contribution reduces the taxpayer's overall tax liability by \$24. It's important to recognize that the tax savings from the contribution will not equal the \$100 donated, as the amount saved is directly tied to the marginal rate, rather than being a straightforward dollar-for-dollar reduction in taxes owed. This understanding is crucial for taxpayers when planning their charitable contributions and assessing their overall tax strategy.

8. What is considered when calculating the expected return of an investment portfolio?

- A. Investment age and duration
- B. Individual investor preferences
- C. Weightage of assets and their expected returns**
- D. Economic indicators only

The expected return of an investment portfolio is determined primarily by the weightage of the assets in the portfolio and their individual expected returns. This concept rests on the principle of combining different investments, each with a specific return potential based on their historical performance, risk profile, and market conditions. When calculating the expected return, the expected return of each asset is multiplied by its proportion in the overall portfolio. This weighted average gives an accurate reflection of what an investor might expect to earn from their investment mix, factoring in the contribution of each asset according to its weight. This method effectively captures the nature of diversification, where the overall expected return is reliant on the combination of diverse investments rather than on any single asset. In contrast, the other options focus on different aspects of investment analysis. The age and duration of investments do not directly contribute to the expected return calculation but may influence overall strategy. Individual investor preferences relate to risk tolerance and investment goals, which guide portfolio construction but are not part of the mathematical calculation of expected returns. Lastly, while economic indicators provide context for market conditions, they do not directly dictate the expected return calculation for a given portfolio. Thus, option C encapsulates the core formula used to determine the expected return effectively, making it the correct choice.

9. What type of life insurance is best for an employer seeking flexibility in investment choices for funding a nonqualified deferred compensation agreement?

- A. Whole life insurance**
- B. Universal life insurance**
- C. Term life insurance**
- D. Variable life insurance**

The best choice for an employer looking for flexibility in investment choices for funding a nonqualified deferred compensation agreement is variable life insurance. This type of insurance allows policyholders to allocate their premiums among a variety of investment options, such as stocks, bonds, or mutual funds, which can lead to varying cash values and death benefits based on the investment performance. The inherent flexibility of variable life insurance makes it particularly suitable for nonqualified deferred compensation arrangements since these plans often require a longer-term investment strategy that can adapt to the changing financial landscape. Furthermore, the potential for higher cash value accumulation aligns well with the objectives of funding retirement benefits or supplementary income plans. Other types of life insurance, such as whole life and universal life, offer more conservative investment components with less variability, which may not provide the same level of growth potential or flexibility. Term life insurance, on the other hand, does not build cash value and is solely designed for coverage, making it unsuitable for investment purposes in the context of deferred compensation. Thus, variable life insurance stands out as the optimal choice for this scenario.

10. Which type of insurance expense is part of Ted Jones's budget?

- A. Homeowner's insurance**
- B. Auto insurance**
- C. Health insurance**
- D. Liability insurance**

The selected answer, auto insurance, is indeed an important type of insurance expense that can be included in an individual's budget. Auto insurance is crucial for protecting against financial loss in the event of accidents, theft, or damage involving vehicles. Many people budget for auto insurance to ensure they meet legal requirements and safeguard their investment in their vehicles. In the context of managing personal finances, it is common for individuals like Ted Jones to account for auto insurance as part of their monthly or annual expenses. This allows for better financial planning and ensures that he is adequately covered while on the road. Homeowner's insurance, health insurance, and liability insurance are also essential types of coverage, but depending on Ted's specific circumstances, such as whether he owns a home or has assets requiring liability coverage, auto insurance may emerge as a more immediate or pressing concern in his budget. Thus, focusing on vehicle-related expenses is a relevant decision when planning overall insurance costs.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://accreditedassetmgmt.examzify.com>

We wish you the very best on your exam journey. You've got this!